

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

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NOTICE OF MARKET-DOMINANT PRICE  
ADJUSTMENT AND CLASSIFICATION CHANGES  
RELATED TO MOVE UPDATE ASSESSMENT

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Docket No. R2017-7

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO QUESTIONS 1(c) AND 2(c) OF  
CHAIRMAN'S INFORMATION REQUEST NO. 2  
(July 19, 2017)**

The Postal Service hereby files its response to the above-listed questions of Chairman's Information Request (ChIR) No. 2, issued on July 7, 2017. The questions are stated verbatim and followed by the response. The responses to questions 1(a)-(b) and 2(a)-(b) were filed on July 14. For convenience, the previously-provided responses appear with the new responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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July 19, 2017

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
CHAIRMAN'S INFORMATION REQUEST NO. 2

1. Please refer to Library Reference USPS-LR-R2017-7/4, "Census Data Preface."<sup>1</sup> The Postal Service states that "the [c]ensus data...pertain to the [c]ensus-eligible mailings...."
  - a. Please confirm all mail in a census-eligible mailing must have an Intelligent Mail barcode. If not confirmed, please explain. In addition, please explain all additional requirements for a census-eligible mailing.
  - b. Please confirm that non-automation and single-piece mail are not census-eligible. See Census Data Preface at 3. If confirmed, please list any additional non-census-eligible mail. If not confirmed, please list all non-census-eligible mail.
  - c. Please provide the ratio of census-eligible mailings to total mailings disaggregated by class and by product for the hybrid year. In addition, please include the following data disaggregated by class and product for the hybrid year:
    - i. the total number of census-eligible mailings
    - ii. the total number of census-eligible pieces
    - iii. the total number of mailings
    - iv. the total number of pieces

**RESPONSE:**

- a. Confirmed. In addition, in order for a mailer to be measured under the census method at least one Full-Service mailing must be presented in a prior month. All subsequent mailings that are entered using electronic documentation (eDoc) are measured using the census method, with the following exceptions. Mailings meeting these requirements are not census-eligible if the eDoc Submitter, Mail Owner, or Mail Preparer is approved for Legal Restraint. Finally, pieces in a census-eligible mailing that are paid at non-automation and single piece rates, and mailpieces that are undeliverable due to an address change that is Temporary,

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<sup>1</sup> Library Reference USPS-LR-R2017-7/4, June 30, 2017, file "Census Data Preface.pdf" (Census Data Preface).

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
CHAIRMAN'S INFORMATION REQUEST NO. 2

Foreign, Moved Left No Address (MLNA), and Box Closed No Order (BCNO) are not included in the census review.<sup>2</sup>

- b. Confirmed. Please see the response to part (a).
- c. The Postal Service interprets "total mailings" in this question (including subpart iii.) to mean mailings of commercial First-Class Mail and USPS Marketing Mail letters and flats. With that in mind, the ratio of census-eligible mailings to total mailings for the hybrid year was 54 percent for First-Class Mail and 43 percent for USPS Marketing Mail. The data necessary to calculate the ratio of census-eligible mailings to total mailings for the hybrid year disaggregated by product, as well as the requested data disaggregated by product in subparts (i)–(iv), are not available because the retention period has lapsed for the shape-based data needed to separate out products. The data that are still available are presented below.
  - i. 1,556,516 First-Class Mail mailings and 1,841,957 USPS Marketing Mail mailings were census-eligible during the hybrid year.
  - ii. 35,652,695,538 First-Class Mail pieces and 63,805,230,975 USPS Marketing Mail pieces were census-eligible during the hybrid year.
  - iii. 2,893,987 total First-Class Mail mailings and 4,303,383 total USPS Marketing Mail mailings were submitted to the Postal Service during the hybrid year.

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<sup>2</sup> See Address Quality Census Measurement and Assessment Process, 82 Fed. Reg. 11871, 11872-3 (proposed Feb. 27, 2017).

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
CHAIRMAN'S INFORMATION REQUEST NO. 2

- iv. 40,156,906,265 total First-Class Mail pieces and 79,034,530,562 total USPS Marketing Mail pieces were submitted to the Postal Service during the hybrid year.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
CHAIRMAN'S INFORMATION REQUEST NO. 2

2. Please refer to USPS-LR-R2017-7/4, Excel file "Move Update Census Data.xlsx," tab "MERLIN v Census Comparison" (Move Update Census Comparison tab).
- a. Please refer to columns S through W (under "Census: Eligible Volume") in the Move Update Census Comparison tab and confirm that those columns calculate the Move Update eligible volume under the proposed census method using the subset of mailings which were charged a fee under the MERLIN method and are now census-eligible. If not confirmed, please explain how the "Census: Eligible Volume" is calculated.
- b. Please confirm that all First-Class and Marketing Mail census-eligible mailings will be verified for Move Update compliance. If not confirmed, please explain all circumstances under which a census-eligible mailing would not be verified for Move Update compliance.
- c. Please provide the following data, disaggregated by class:
  - i. The total number of pieces, disaggregated by class, for which Move Update compliance would have been verified under the census method in the hybrid year if the census method had been in effect.
  - ii. The total number of pieces, disaggregated by class, for which Move Update fees would have been assessed under the census method in the hybrid year if the census method had been in effect.
  - iii. Revised cap calculation spreadsheets that reflect the total number of pieces, disaggregated by class, for which Move Update fees would have been assessed in the hybrid year under the census method if the census method had been in effect.

**RESPONSE:**

- a. Confirmed.
- b. Confirmed.
- c.
  - i.

As stated in response to question 1(c), 35,652,695,538 First-Class Mail pieces and 63,805,230,975 USPS Marketing Mail pieces were census-eligible during the hybrid year.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
CHAIRMAN'S INFORMATION REQUEST NO. 2

ii.

The Postal Service does not know how many pieces would have been assessed if the Census method had been in effect during the hybrid year. The Scorecard data described in our Notice, which the Postal Service collected and provided to mailers to assist them in improving their address quality and conforming to the Move Update standard, does not provide a reliable basis for assessing the impact of such assistance on mailer compliance with the Move Update standard and therefore does not indicate how many pieces would pay if the Census method had been in effect at the time the data were collected. Therefore, the historical data do not provide a basis for reasonable adjustments to billing determinants beyond what the Postal Service has already provided.

iii.

As explained in response to part (ii) and below, the Postal Service maintains that its June 30 cap calculation spreadsheets provide all reasonable adjustments to the billing determinants to calculate the percentage change in rates. Even if data were available showing the total number of pieces, disaggregated by class, for which Move Update fees would have been assessed under the Census method in the hybrid year if the census method had been in effect, it would be inappropriate to use such a piece count to amend the price cap calculations. As indicated in our Notice of Rate Adjustment, the Postal Service contends that additional volumes/revenues resulting from increased enforcement of its regulations do not implicate the price cap.<sup>3</sup> Using

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<sup>3</sup> United States Postal Service Notice of Market Dominant Price Adjustment and Classification Changes, Docket No. R2017-7 (June 30, 2017), at 11 n.16.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
CHAIRMAN'S INFORMATION REQUEST NO. 2

such data would exceed the Commission's authority to regulate "changes in rates" under section 3622(d)(1)(A) of the PAEA.

In the Postal Service's First-Class Mail and USPS Marketing Mail workpapers filed on June 30, 2017, the Postal Service made reasonable adjustments to its billing determinants using the available Census data for mailings from which the Move Update assessment charge was collected under MERLIN during the hybrid year. Mailers sampled by MERLIN either had adequate address quality and avoided the Move Update assessment charge, or exceeded the MERLIN error threshold of 30 percent and incurred an assessment. Mailers assessed the Move Update assessment charge then had two options: either pay the assessment charge or withdraw the mailing, update the addresses pursuant to the Move Update standard and resubmit the mailing to the Postal Service. These mailings represent the only data the Postal Service has for determining how mailers actually behave when subject to enforcement of the Move Update standard.<sup>4</sup> Accordingly, the Postal Service contends that the billing determinants adjustments submitted on June 30 appropriately account for the effects of the proposed price change.

Conversely, the Postal Service maintains that it would be unreasonable to calculate new billing determinants, using the Scorecard data for historical volumes and mail characteristics to determine how many pieces might have paid an assessment

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<sup>4</sup> See United States Postal Service Notice of Market Dominant Price Adjustment and Classification Changes, Docket No. R2017-7 (June 30, 2017), at 4 (explaining the Move Update standard as set forth in the *Mailing Standards of the United States Postal Service, Domestic Mail Manual* § 602.5).

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
CHAIRMAN'S INFORMATION REQUEST NO. 2

under Census for mailings that avoided enforcement under the MERLIN method.<sup>5</sup> First, the use of the requested data to adjust the billing determinants would inappropriately treat the adoption of the new Census method as a price cap event. While the Postal Service recognizes that the price cap is triggered by its proposal to increase the Move Update assessment charge to \$0.08, the adoption of a more rigorous system of enforcement does not should have any bearing on the price cap calculation. Indeed, implicit in the Commission's precedent is the recognition that the price cap's regulation of "changes in rates" does not extend to changes in enforcement. In Docket No. R2010-1, the docket in which the Commission approved the MERLIN method, the Commission declined to direct the Postal Service to file a rate case with the Commission every time a MERLIN machine was added or retired, even though such action has occurred and would presumably impact the number of assessments. Accordingly, based on Commission precedent, had the Postal Service merely decided to add more MERLIN machines under the existing MERLIN method, without also proposing an increase in the Move Update assessment charge, it would not have been expected to file a rate case.

The same reasoning applies to the Census approach being proposed in the instant case. To make billing determinants adjustments beyond what is included in the Postal Service's filing would be tantamount to penalizing the Postal Service for adopting a more rigorous system of enforcement. The Commission, surely did not intend for the

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<sup>5</sup> The Postal Service's workpapers already adjust all of the current billing determinants for the Move Update assessment charge. Going farther to add new volumes based on the existing historical data would be wrong. The Postal Service believes that billing determinant adjustments should incorporate entirely new volumes for a particular price cell only when representative historical data exist for those new volumes.



RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
CHAIRMAN'S INFORMATION REQUEST NO. 2

price cap rules to obstruct the Postal Service from enforcing its regulations at the appropriate level. Just as a town's installation of additional speed cameras does not increase the penalty for speeding, the Postal Service's increased enforcement of its existing regulations is not a price increase, and therefore is not subject to the price cap.

More to the point, including all Census threshold-exceeding mailings in the price cap calculation rather than solely those threshold-exceeding mailings that previously had been captured under the MERLIN method would produce anomalous results because mailers generally pay less on a per-mailing basis under Census than they would have paid under MERLIN for the same mailing. Recall that under the MERLIN method, the Move Update assessment charge is levied against the percentage of mailpieces in the entire mailing above the error threshold, irrespective of whether such mailpieces have a COA error. It stands to reason, therefore, that the Postal Service could have assessed more Move Update charges during the hybrid year had it installed MERLIN machines at every point of entry and sampled all mailings pursuant to the MERLIN method, than it would assess under the Census method. The fact that the Postal Service did not previously engage in such comprehensive review, and therefore did not assess the maximum Move Update charges possible does not mean that the mailings that had evaded assessment should be deemed to have complied with the Move Update standard for purposes of the price cap.<sup>6</sup> Instead, the fact that such mailings may now be captured and assessed a much lower amount on a per-mailing

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<sup>6</sup> Indeed, the true apples-to-apples comparison would be to consider what every mailer that previously escaped verification under MERLIN would have paid for a mailing had it been verified by MERLIN, versus what that same mailing would pay under Census. Accordingly, using the mailings identified in the June 30 price cap workpapers that paid the Move Update assessment charge under MERLIN and would have been verified by Census as a proxy for all Census-eligible mailings, the Postal Service would gain *increased* cap authority.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
CHAIRMAN'S INFORMATION REQUEST NO. 2

basis under the Census rules<sup>7</sup> is the result of the Postal Service's ability to more fully and accurately enforce its existing regulations rather than, for example, a change in the assessment charge or the underlying regulation.

Indeed, if anything, the prospect of enhanced enforcement introduced by the Census method will lead mailers to improve their address quality so that their mailings would comply with the Move Update standard and not face an assessment. Accordingly, even if the Commission somehow were to interpret the statutory phrase "changes in rates" to include the enhanced enforcement of existing postal regulations and standards, it would be unreasonable under the Commission's rules to assume that mailers that were not subject to MERLIN verification and did not pay the Move Update assessment charge would not have complied with the Move Update standard under the new Census method of verification. Data on how those mailers would have reacted to Move Update verification and assessment are not available, and it is not reasonable or appropriate to use data that did not reflect the actual threat of assessment. Accordingly, if the Commission were to insist on adjusting billing determinants for mailings that currently are not subject to enforcement, the more reasonable assumption would be that these mailings would have fallen below the Census error threshold, consistent with the price cap workpapers filed by the Postal Service with its Notice.

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<sup>7</sup> The price cap workpapers for First-Class Mail and USPS Marketing Mail show that, for the mailings that were subject to assessment under both MERLIN and Census, the Census method would have collected \$102,000 less for First-Class Mail, and \$61,000 less for USPS Marketing Mail. Recall also the Postal Service's example of how one commercial First-Class Mail letters mailing would fare under Census versus MERLIN, incurring a Move Update assessment of \$700 under MERLIN, compared to an assessment of \$8 under Census. United States Postal Service Notice of Market Dominant Price Adjustment and Classification Changes, Docket No. R2017-7 (June 30, 2017), at 10.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
CHAIRMAN'S INFORMATION REQUEST NO. 2

Once again, however, the Postal Service maintains that the price cap cannot and should not apply to efforts to increase enforcement. Including enhanced enforcement in a price cap calculation would distort the Postal Service's incentives by deterring it from establishing an assessment scheme that encourages mailers to comply with its regulations. The Commission has seemingly acknowledged that such distortion should be avoided.<sup>8</sup>

Specifically, the risk of a price cap hit would encourage the Postal Service to weaken the assessment system to reduce the price cap hit. For example, the Postal Service could change the Census method to count COA errors for only one-tenth of all Census-eligible mailings. Presumably, this would reduce the price cap hit by 90 percent. But this approach might fail to motivate mailers to change their behavior, wholly undermining the enforcement objective. As a result, the Postal Service would gain more revenue from the Census method, because some mailers would fail to improve their Move Update compliance. Thus, by reducing enforcement the Postal Service could both retain cap space and get revenue. But that is not the Postal Service's objective. The Postal Service is moving to the Census method to encourage mailers to comply with the Move Update standard, and has labored to file this case nearly seven months before the planned implementation date to provide mailers with ample opportunity to adopt Move Update processes and avoid the assessment.

Finally, it would be ironic and fundamentally unfair if the Postal Service were to face a potential cap hit solely because it took the step of collecting and disseminating to mailers information that would assist them in complying with the Move Update standard

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<sup>8</sup> See Order No. 1890, Order on Price Adjustments for Market Dominant Products and Related Mail Classification Changes, PRC Docket No. R2013-10 (Nov. 21, 2013), at 24–25.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
CHAIRMAN'S INFORMATION REQUEST NO. 2

and thereby avoid facing a Move Update assessment charge. As indicated in the Notice of Rate Adjustment,<sup>9</sup> the Mailer Scorecard provides mailers with COA error information, including data on errors that both exceed and fall below the Census error threshold.<sup>10</sup> The Postal Service has collected and provided these data to mailers for informational purposes to assist them in correcting their address quality by conforming to the Move Update standard in advance of assessing under the Census method. Had the Postal Service not endeavored to collect and provide these data, the Commission would have no extraneous data available to adjust the billing determinants. In recent months, the Postal Service's Business Mailer Support team has begun reaching out to every mailer that exceeds the Census error threshold in a calendar month. Between June 30, 2017, the date on which the Postal Service first announced its intended implementation date, and January 21, 2018, the planned implementation date, the Postal Service expects mailer address quality to improve significantly due to the tangible threat of assessment, information available via the Mailer Scorecard, and the Postal Service's additional outreach. The Postal Service would thus suffer financial harm because of its efforts assisting mailer compliance with the Move Update standard if the Commission amends the Postal Service's price cap calculation with the piece count being requested in this question, yet another clear example of the way in which interpreting the price cap in this manner distorts the Postal Service's incentives.

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<sup>9</sup> United States Postal Service Notice of Market Dominant Price Adjustment and Classification Changes, Docket No. R2017-7 (June 30, 2017), at 7.

<sup>10</sup> The Seamless Acceptance and Service Performance (SASP) system is the source of these data.